

CHARITON COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2007

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Chariton Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2006 Election)		
Chuck Crabtree	President	2008
Ann Moon	Vice President	2007
Nick Hunter	Board Member	2008
Denny Bisgard	Board Member	2006
Dave Rich	Board Member	2006

Board of Education		
(After September 2006 Election)		
Chuck Crabtree	President	2008
Ann Moon	Vice President	2007
Nick Hunter	Board Member	2008
Craig Huff	Board Member	2009
Dave Rich	Board Member	2009

School Officials

Dr. Robert Newsum	Superintendent	2007
Kelley Reece	District Secretary	2007
Paul Goldsmith	Attorney	2007

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Chariton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Chariton Community School District, Chariton, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Chariton Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 22, 2008 on our consideration of the Chariton Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of

inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Chariton Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinion on those financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (which are not presented herein) and expressed a qualified opinion on those financial statements due to the lack of capital assets. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC

NOLTE, CORNMAN & JOHNSON, P.C.

February 22, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Chariton Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$11,046,396 in fiscal 2006 to \$11,349,951 in fiscal 2007, while General Fund expenditures increased from \$10,771,240 in fiscal 2006 to \$11,221,617 in fiscal 2007. This resulted in an increase in the District's General Fund balance from \$486,894 in fiscal 2006 to a balance of \$615,228 in fiscal 2007, a 26.36% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in state and local sources during fiscal 2007. The increase in expenditures was due primarily to an increase in the instructional and support services functional expense categories, during fiscal 2007.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Chariton Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Chariton Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Chariton Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

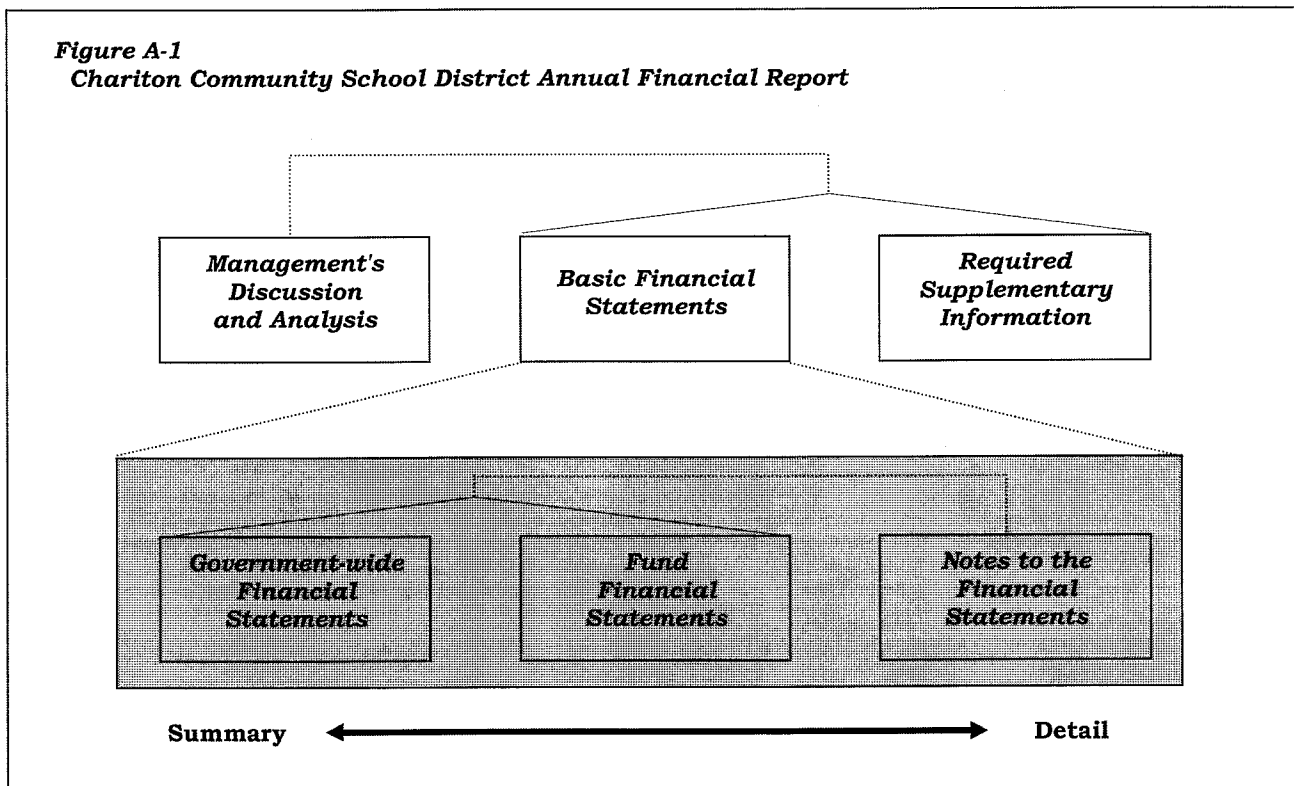


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2
Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the

District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects Fund and the Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 9,685,759	8,050,767	45,687	49,667	9,731,446	8,100,434	20.13%
Capital assets	8,095,423	8,178,860	51,788	58,222	8,147,211	8,237,082	-1.09%
Total assets	17,781,182	16,229,627	97,475	107,889	17,878,657	16,337,516	9.43%
Long-term obligations	1,348,529	1,638,962	0	0	1,348,529	1,638,962	-17.72%
Other liabilities	6,565,370	5,825,196	152,840	148,592	6,718,210	5,973,788	12.46%
Total liabilities	7,913,899	7,464,158	152,840	148,592	8,066,739	7,612,750	5.96%
Net assets:							
Invested in capital assets, net of related debt	6,820,423	6,623,224	51,788	58,222	6,872,211	6,681,446	2.86%
Restricted	2,242,574	1,706,640	0	0	2,242,574	1,706,640	31.40%
Unrestricted	804,286	435,605	(107,153)	(98,925)	697,133	336,680	107.06%
Total net assets	\$ 9,867,283	8,765,469	(55,365)	(40,703)	9,811,918	8,724,766	12.46%

The District's combined net assets increased by 12.46 % or \$1,087,152 over the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets increased \$535,934 or 31.40% over the prior year. The increase was primarily a result of the improving fund balance in the Capital Projects fund.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - increased \$360,453 or 107.06%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to the year ended June 30, 2006.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 1,055,257	1,287,469	199,166	215,748	1,254,423	1,503,217	-16.55%
Operating grants and contributions and restricted interest	1,675,440	1,515,531	296,658	296,461	1,972,098	1,811,992	8.84%
General revenues:							
Property tax	3,027,757	3,032,749	0	0	3,027,757	3,032,749	-0.16%
Local option sales and services tax	848,759	689,255	0	0	848,759	689,255	23.14%
Unrestricted state grants	6,193,241	6,245,991	0	0	6,193,241	6,245,991	-0.84%
Unrestricted investment earnings	260,950	87,863	148	180	261,098	88,043	196.56%
Other	280,349	0	0	0	280,349	0	100.00%
Total revenues	13,341,753	12,858,858	495,972	512,389	13,837,725	13,371,247	3.49%
Program expenses:							
Governmental activities:							
Instructional	7,892,123	7,632,333	0	0	7,892,123	7,632,333	3.40%
Support services	3,584,233	3,561,574	1,564	0	3,585,797	3,561,574	0.68%
Non-instructional programs	4,477	4,593	509,070	527,111	513,547	531,704	-3.41%
Other expenses	759,106	756,865	0	0	759,106	756,865	0.30%
Total expenses	12,239,939	11,955,365	510,634	527,111	12,750,573	12,482,476	2.15%
Change in net assets	1,101,814	903,493	(14,662)	(14,722)	1,087,152	888,771	22.32%
Beginning net assets	8,765,469	7,861,976	(40,703)	(25,981)	8,724,766	7,835,995	11.34%
Ending net assets	\$ 9,867,283	8,765,469	(55,365)	(40,703)	9,811,918	8,724,766	12.46%

In fiscal 2007, property tax and unrestricted state grants account for 69.11% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.97% of the revenue from business type activities.

The District's total revenues were approximately \$13.84 million of which \$13.34 million was for governmental activities and approximately \$0.50 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 3.49% increase in revenues and a 2.15% increase in expenses. Unrestricted investment earnings increased \$173,087 and local tax (property tax and local option sales tax) increased \$154,512 to fund increases in expenditures.

Governmental Activities

Revenues for governmental activities were \$13,341,753 and expenses were \$12,239,939.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 7,892,123	7,632,333	3.40%	5,612,588	5,267,457	6.55%
Support services	3,584,233	3,561,574	0.64%	3,583,104	3,558,367	0.70%
Non-instructional	4,477	4,593	-2.53%	4,477	4,593	-2.53%
Other expenses	759,106	756,865	0.30%	309,073	321,948	-4.00%
Totals	\$ 12,239,939	11,955,365	2.38%	9,509,242	9,152,365	3.90%

- The cost financed by users of the District's programs was \$1,055,257.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,675,440.
- The net cost of governmental activities was financed with \$3,027,757 in property taxes, \$848,759 in local option sales and services tax, \$6,193,241 in unrestricted state grants and \$260,950 interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$495,972 and expenses were \$510,634. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and interest income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Chariton Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$2,831,496, above last year's ending fund balance of a \$2,050,853.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. Growth during the year in grants resulted in an increase in revenues. Along with the increase in revenues, the General Fund had an increase in expenditures. The increase in revenues was more than enough to offset the increase in expenditures. This caused the General Fund balance to increase from \$486,894 in fiscal year 2006 to \$615,228 in fiscal year 2007.
- The Capital Projects Fund balance increased from \$1,192,474 in fiscal year 2006 to \$1,558,237 in fiscal year 2007, due in part to the District receiving local option sales and services tax for the third year with limited expenses.
- The Debt Service Fund balance increased slightly this year due to the normal course of actions during the year. The District continues to not levy for debt service to lessen the burden on taxpayers of the District. The fund balance increased from \$11,437 to \$11,717.
- The Physical Plant and Equipment Levy Fund balance increased from \$174,457 in 2006 to \$447,667 in 2007.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from a deficit \$40,703 at June 30, 2006 to a deficit \$55,365 at June 30, 2007, representing a decrease of 36.01%.

BUDGETARY HIGHLIGHTS

The District's receipts were \$8,865 less than budgeted receipts, a variance of less than 1.0%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were more than budgeted, primarily due to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$8.1 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 1.10% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$422,108.

The original cost of the District's capital assets was \$17.46 million. Governmental funds account for \$17.32 million with the remainder of \$.14 million in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land improvements category. This increase resulted from the purchases made during the year less current depreciation during the fiscal year 2007.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 373,410	373,410	0	0	373,410	373,410	0.00%
Land improvements	230,996	132,545	0	0	230,996	132,545	42.62%
Buildings and improvements	6,958,752	7,157,453	0	0	6,958,752	7,157,453	-2.86%
Machinery and equipment	532,265	515,452	51,788	58,222	584,053	573,674	1.78%
Total	\$ 8,095,423	8,178,860	51,788	58,222	8,147,211	8,237,082	-1.10%

Long-Term Debt

At June 30, 2007, the District had \$1,348,529 in general obligation and other long-term debt outstanding. This represents a decrease of 21.5% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

The District had total outstanding Early Retirement payable from the Special Revenue - Management Fund of \$73,529 at June 30, 2007.

The District had total outstanding general obligation bonds payable of \$1,275,000 at June 30, 2007.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2007	2006	
General obligation bonds	\$ 1,275,000	1,555,000	-22.0%
Early retirement	73,529	83,962	-14.2%
Totals	<u>\$ 1,348,529</u>	<u>1,638,962</u>	<u>-21.5%</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The upcoming Iowa legislative session could again prove to be most challenging in respect to the state budget. The impact of state reductions to education is an unknown that we must be ready to address and compensate.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kelley Reece, Board Secretary/Business Manager, Chariton Community School District, 140 E. Albia Road, P.O. Box 738, Chariton, Iowa, 50049-0738.

BASIC FINANCIAL STATEMENTS

CHARITON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents:			
ISCAP(Note 5)	\$ 2,457,112	0	2,457,112
Other	3,130,346	42,346	3,172,692
Receivables			
Property tax:			
Delinquent	54,810	0	54,810
Succeeding year	2,723,447	0	2,723,447
Income surtax	298,866	0	298,866
Interfund	146,952	0	146,952
Accounts	18,267	0	18,267
Accrued ISCAP interest(Note 5)	131,768	0	131,768
Due from other governments	724,191	0	724,191
Inventories	0	3,341	3,341
Capital assets, net of accumulated depreciation(Note 6)	8,095,423	51,788	8,147,211
TOTAL ASSETS	17,781,182	97,475	17,878,657
LIABILITIES			
Interfund payable	0	146,952	146,952
Accounts payable	17,400	0	17,400
Salaries and benefits payable	1,160,574	0	1,160,574
ISCAP warrants payable(Note 5)	2,461,000	0	2,461,000
ISCAP accrued interest payable(Note 5)	124,374	0	124,374
ISCAP unamortized premium	18,261	0	18,261
Accrued interest payable	9,973	0	9,973
Deferred revenue:			
Succeeding year property tax	2,723,447	0	2,723,447
Other	50,341	0	50,341
Unearned revenues	0	5,888	5,888
Long-term liabilities(Note 7):			
Portion due within one year:			
General obligation bonds payable	300,000	0	300,000
Early retirement	33,237	0	33,237
Portion due after one year:			
General obligation bonds payable	975,000	0	975,000
Early retirement	40,292	0	40,292
TOTAL LIABILITIES	7,913,899	152,840	8,066,739
NET ASSETS			
Invested in capital assets, net of related debt	6,820,423	51,788	6,872,211
Restricted for:			
Talented and gifted	71,439	0	71,439
Market factor	10,233	0	10,233
Physical plant and equipment levy	447,667	0	447,667
Capital projects	1,558,237	0	1,558,237
Debt service	11,717	0	11,717
Other special revenue purposes	143,281	0	143,281
Unrestricted	804,286	(107,153)	697,133
TOTAL NET ASSETS	\$ 9,867,283	(55,365)	9,811,918

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Govern- mental Activities	Business- Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 4,880,726	555,812	1,143,301	(3,181,613)	0	(3,181,613)
Special instruction	1,515,313	70,582	82,106	(1,362,625)	0	(1,362,625)
Other instruction	1,496,084	427,734	0	(1,068,350)	0	(1,068,350)
	7,892,123	1,054,128	1,225,407	(5,612,588)	0	(5,612,588)
Support services:						
Student services	246,285	0	0	(246,285)	0	(246,285)
Instructional staff services	263,761	0	0	(263,761)	0	(263,761)
Administration services	1,286,015	0	0	(1,286,015)	0	(1,286,015)
Operation and maintenance of plant services	1,285,163	0	0	(1,285,163)	0	(1,285,163)
Transportation services	503,009	1,129	0	(501,880)	0	(501,880)
	3,584,233	1,129	0	(3,583,104)	0	(3,583,104)
Non-instructional programs	4,477	0	0	(4,477)		(4,477)
Other expenditures:						
Long-term debt interest	70,737	0	0	(70,737)	0	(70,737)
AEA flowthrough	450,033	0	450,033	0	0	0
Depreciation(unallocated)*	238,336	0	0	(238,336)	0	(238,336)
	759,106	0	450,033	(309,073)	0	(309,073)
Total governmental activities	12,239,939	1,055,257	1,675,440	(9,509,242)	0	(9,509,242)
Business-Type activities:						
Support services:						
Administration services	1,564	0	0	0	(1,564)	(1,564)
Non-instructional programs:						
Food service operations	509,070	199,166	296,658	0	(13,246)	(13,246)
Total business-type activities	510,634	199,166	296,658	0	(14,810)	(14,810)
Total	\$ 12,750,573	1,254,423	1,972,098	(9,509,242)	(14,810)	(9,524,052)
General Revenues:						
Property tax levied for:						
General purposes				\$ 2,688,499	0	2,688,499
Capital outlay				339,258	0	339,258
Local option sales and services				848,759	0	848,759
Unrestricted state grants				6,193,241	0	6,193,241
Unrestricted investment earnings				260,950	148	261,098
Other				280,349	0	280,349
Total general revenues				10,611,056	148	10,611,204
Changes in net assets				1,101,814	(14,662)	1,087,152
Net assets beginning of year				8,765,469	(40,703)	8,724,766
Net assets end of year				\$ 9,867,283	(55,365)	9,811,918

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments:				
ISCAP(Note 5)	\$ 2,457,112	0	0	2,457,112
Other	1,516,361	1,161,100	452,885	3,130,346
Receivables:				
Property tax:				
Delinquent	48,389	0	6,421	54,810
Succeeding year	2,403,803	0	319,644	2,723,447
Income surtax	112,075	0	186,791	298,866
Interfund	146,952	0	198,725	345,677
Accounts	18,267	0	0	18,267
Accrued ISCAP interest(Note 5)	131,768	0	0	131,768
Due from other governments	327,054	397,137	0	724,191
TOTAL ASSETS	\$ 7,161,781	1,558,237	1,164,466	9,884,484
LIABILITIES AND FUND BALANCES				
Liabilities:				
Interfund payable	\$ 198,725	0	0	198,725
Accounts payable	17,400		0	17,400
Salaries and benefits payable	1,160,574	0	0	1,160,574
ISCAP warrants payable(Note 5)	2,461,000	0	0	2,461,000
ISCAP accrued interest payable(Note 5)	124,374	0	0	124,374
ISCAP unamortized premium	18,261	0	0	18,261
Deferred revenue:				
Succeeding year property tax	2,403,803	0	319,644	2,723,447
Income surtax	112,075	0	186,791	298,866
Other	50,341	0	0	50,341
Total liabilities	6,546,553	0	506,435	7,052,988
Fund balances:				
Reserved for:				
Talented and gifted	71,439	0	0	71,439
Market factor	10,233	0	0	10,233
Debt service	0	0	11,717	11,717
Unreserved	533,556	1,558,237	646,314	2,738,107
Total fund balances	615,228	1,558,237	658,031	2,831,496
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,161,781	1,558,237	1,164,466	9,884,484

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2007

Total fund balances of governmental funds (page 15)	\$ 2,831,496
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	8,095,423
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	298,866
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(9,973)
Long-term liabilities, including bonds payable and early retirement are not due and payable in the current period and, therefore, are not reported in the funds.	(1,348,529)
Net assets of governmental activities (page 13)	<u>\$ 9,867,283</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 2,397,915	848,759	517,767	3,764,441
Tuition	611,828	0	0	611,828
Other	626,663	57,056	456,145	1,139,864
State sources	7,233,874	0	0	7,233,874
Federal sources	479,671	0	0	479,671
Total revenues	11,349,951	905,815	973,912	13,229,678
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	4,841,560	0	27,625	4,869,185
Special instruction	1,498,964	0	0	1,498,964
Other instruction	1,072,828	0	431,655	1,504,483
	7,413,352	0	459,280	7,872,632
Support services:				
Student services	246,285	0	0	246,285
Instructional staff services	343,021	2,273	12,253	357,547
Administration services	1,272,613	0	0	1,272,613
Operation and maintenance of plant services	1,036,345	41,356	205,646	1,283,347
Transportation services	455,491	108,150	2,416	566,057
	3,353,755	151,779	220,315	3,725,849
Non-instructional programs	4,477	0	0	4,477
Other expenditures:				
Facilities acquisitions	0	35,436	7,771	43,207
Long-term debt:				
Principal	0	0	280,000	280,000
Interest and fiscal charges	0	0	72,837	72,837
AEA flowthrough	450,033	0	0	450,033
	450,033	35,436	360,608	846,077
Total expenditures	11,221,617	187,215	1,040,203	12,449,035
Excess(deficiency) of revenues over(under) disbursements	128,334	718,600	(66,291)	780,643
Other financing sources:				
Transfer in	0	0	352,837	352,837
Transfer out	0	(352,837)	0	(352,837)
Total other financing sources	0	(352,837)	352,837	0
Net changes in fund balances	128,334	365,763	286,546	780,643
Fund balance beginning of year	486,894	1,192,474	371,485	2,050,853
Fund balance end of year	\$ 615,228	1,558,237	658,031	2,831,496

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17) \$ 780,643

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 330,887	
Depreciation expense	(413,074)	
Loss on disposal	<u>(1,250)</u>	(83,437)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments were as follows:

Repaid	280,000
--------	---------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

2,100

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.

112,075

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	<u>10,433</u>
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Changes in net assets of governmental activities (page 14)

\$ 1,101,814

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 42,346
Inventories	3,341
Capital assets, net of accumulated depreciation (Note 6)	51,788
Total assets	<u>97,475</u>
LIABILITIES	
Interfund payable	146,952
Unearned revenue	5,888
Total liabilities	<u>152,840</u>
NET ASSETS	
Invested in capital assets	51,788
Unrestricted	(107,153)
Total net assets	<u>\$ (55,365)</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	<u>\$ 199,166</u>
OPERATING EXPENSES:	
Support services:	
Administration services	1,564
Non-instructional programs:	
Food service operations:	
Salaries	165,574
Benefits	77,408
Services	3,120
Supplies	253,934
Depreciation	<u>9,034</u>
TOTAL OPERATING EXPENSES	<u>510,634</u>
OPERATING LOSS	<u>(311,468)</u>
NON-OPERATING REVENUES:	
State sources	7,311
Federal sources	289,347
Interest income	<u>148</u>
TOTAL NON-OPERATING REVENUES	<u>296,806</u>
Change in net assets	(14,662)
Net assets beginning of year	<u>(40,703)</u>
Net assets end of year	<u><u>\$ (55,365)</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

Exhibit I

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 203,414
Cash payments to employees for services	(242,982)
Cash payments to suppliers for goods or services	(238,177)
Net cash used in operating activities	<u>(277,745)</u>
Cash flows from non-capital financing activities:	
State grants received	7,311
Federal grants received	<u>267,038</u>
Net cash provided by non-capital financing activities	<u>274,349</u>
Cash flows from investing activities:	
Interest on investments	<u>148</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(2,600)</u>
Net decrease in cash and cash equivalents	(5,848)
Cash and cash equivalents at beginning of year	<u>48,194</u>
Cash and cash equivalents at end of year	<u><u>\$ 42,346</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (311,468)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	22,309
Depreciation	9,034
Increase in inventories	(1,868)
Decrease in accounts receivable	3,316
Increase in unearned revenue	932
Net cash used in operating activities	<u><u>\$ (277,745)</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u><u>\$ 42,346</u></u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$22,309.

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(1) Summary of Significant Accounting Policies

The Chariton Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Chariton, Iowa, and the predominate agricultural territory in Lucas and Marion Counties. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Chariton Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Chariton Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Lucas and Marion County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District reports the following nonmajor proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings and improvements	1,500
Land improvements	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Life (In Years)
Buildings and improvements	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 1,479,179</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

(3) **Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2007 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
PPEL	General	\$ 198,725
General	Nutrition	146,952
Total		<u>\$ 345,677</u>

(4) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 352,837

Transfers generally move revenues from the fund statutorily required to collect resources to the fund statutorily required to expend the resources.

(5) **Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/06	6/28/07	0	131,033	0	123,769
2007-08A	6/27/07	6/27/08	2,457,112	735	2,461,000	605
Total			<u>\$ 2,457,112</u>	<u>131,768</u>	<u>2,461,000</u>	<u>124,374</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2006-07A	\$ 0	1,500,000	1,500,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%
2007-08A	4.500%	5.455%

(6) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 373,410	0	0	373,410
Total capital assets not being depreciated	373,410	0	0	373,410
Capital assets being depreciated:				
Land improvements	1,044,375	126,088	0	1,170,463
Buildings and improvements	11,635,736	11,998	0	11,647,734
Machinery and equipment	3,944,798	192,801	12,500	4,125,099
Total capital assets being depreciated	16,624,909	330,887	12,500	16,943,296
Less accumulated depreciation for:				
Land improvements	911,830	27,637	0	939,467
Buildings and improvements	4,478,283	210,699	0	4,688,982
Machinery and equipment	3,429,346	174,738	11,250	3,592,834
Total accumulated depreciation	8,819,459	413,074	11,250	9,221,283
Total capital assets being depreciated, net	7,805,450	(82,187)	1,250	7,722,013
Governmental activities capital assets, net	\$ 8,178,860	(82,187)	1,250	8,095,423

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 145,547	2,600	0	148,147
Less accumulated depreciation	87,325	9,034	0	96,359
Business-type activities capital assets, net	\$ 58,222	(6,434)	0	51,788

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 68,575
Other	9,978
Support services:	
Instructional staff	1,092
Administration	15,325
Operation and maintenance of plant	1,816
Transportation	77,952
	<u>174,738</u>
Unallocated depreciation	<u>238,336</u>
Total governmental activities depreciation expense	<u>\$ 413,074</u>
Business-type activities:	
Food services	<u>\$ 9,034</u>

(7) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 1,555,000	0	280,000	1,275,000	300,000
Early Retirement	83,962	18,877	29,310	73,529	33,237
Total	\$ 1,638,962	18,877	309,310	1,348,529	333,237

General Obligation Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond issue dated May 1, 1998		
		Principal	Interest	Total
2008	4.50 %	\$ 300,000	59,838	359,838
2009	4.65	315,000	46,337	361,337
2010	4.75	320,000	31,690	351,690
2011	4.85	340,000	16,490	356,490
Total		\$ 1,275,000	154,355	1,429,355

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-six and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to \$100 per year of service with a maximum of of \$1,500 (before deductions) plus the difference between the salary schedule base and the licensed employee's current salary (before deductions) less supplemental pay or extended contract pay. The incentive can be received as cash or the school district will provide continuing coverage under the school district's group insurance plan until the licensed employee reaches age sixty-five or when the incentive benefit runs out (whatever occurs first). If the retiree still has a balance in escrow for insurance at age sixty-five, the District shall pay the remainder balance to the retiree (net taxes). Early retirement benefits paid during the year ended June 30, 2007, totaled \$29,310.

(8) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$394,610, \$372,294, \$368,804 respectively, equal to the required contributions for each year.

(9) Risk Management

Chariton Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed in July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: Dental and long-term disability.

Each members' contributions to the ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2007 were \$93,265.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2007 no liability has been recorded in the District's financial statements. As of June 30, 2006 settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such a period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

Chariton Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$450,033 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Deficit Fund Balance

The School Nutrition had deficit net assets of \$55,365 at June 30, 2007.

REQUIRED SUPPLEMENTAL INFORMATION

CHARITON COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 5,516,133	199,314	5,715,447	5,074,190	5,074,190	641,257
Intermediate sources	0	0	0	27,500	27,500	(27,500)
State sources	7,233,874	7,311	7,241,185	7,752,825	7,752,825	(511,640)
Federal sources	479,671	289,347	769,018	880,000	880,000	(110,982)
Total revenues	13,229,678	495,972	13,725,650	13,734,515	13,734,515	(8,865)
Expenditures:						
Instruction	7,872,632	0	7,872,632	8,343,955	8,343,955	471,323
Support services	3,725,849	1,564	3,727,413	4,262,600	4,262,600	535,187
Non-instructional programs	4,477	509,070	513,547	590,219	590,219	76,672
Other expenditures	846,077	0	846,077	2,083,734	2,083,734	1,237,657
Total expenditures	12,449,035	510,634	12,959,669	15,280,508	15,280,508	2,320,839
Excess(deficiency) of revenues over(under) expenditures	780,643	(14,662)	765,981	(1,545,993)	(1,545,993)	2,311,974
Other financing sources, net	0	0	0	110,000	110,000	(110,000)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	780,643	(14,662)	765,981	(1,435,993)	(1,435,993)	2,201,974
Balance beginning of year	2,050,853	(40,703)	2,010,150	1,838,610	1,838,610	171,540
Balance end of year	\$ 2,831,496	(55,365)	2,776,131	402,617	402,617	2,373,514

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTAL INFORMATION

CHARITON COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	
ASSETS						
Cash and pooled investments	\$ 51,764	143,281	246,123	441,168	11,717	452,885
Receivables:						
Property tax:						
Current year delinquent	3,602	0	2,819	6,421	0	6,421
Succeeding year	180,000	0	139,644	319,644	0	319,644
Income surtax	0	0	186,791	186,791	0	186,791
Interfund	0	0	198,725	198,725	0	198,725
TOTAL ASSETS	\$ 235,366	143,281	774,102	1,152,749	11,717	1,164,466
LIABILITIES AND FUND BALANCES						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	\$ 180,000	0	139,644	319,644	0	319,644
Income surtax	0	0	186,791	186,791	0	186,791
Total liabilities	180,000	0	326,435	506,435	0	506,435
Fund balances:						
Reserved for:						
Debt Service	0	0	0	0	11,717	11,717
Unreserved:						
Undesignated	55,366	143,281	447,667	646,314	0	646,314
Total fund balances	55,366	143,281	447,667	646,314	11,717	658,031
TOTAL LIABILITIES AND FUND BALANCES	\$ 235,366	143,281	774,102	1,152,749	11,717	1,164,466

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	
REVENUES:						
Local sources:						
Local tax	\$ 178,509	0	339,258	517,767	0	517,767
Other	19,789	429,684	6,392	455,865	280	456,145
TOTAL REVENUES	198,298	429,684	345,650	973,632	280	973,912
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	27,625	0	0	27,625	0	27,625
Other instruction	0	431,655	0	431,655	0	431,655
Support services:						
Instructional staff	0	0	12,253	12,253	0	12,253
Operation and maintenance of plant services	155,646	0	50,000	205,646	0	205,646
Student transportation	0	0	2,416	2,416	0	2,416
Other expenditures:						
Facilities acquisitions	0	0	7,771	7,771	0	7,771
Long-term debt:						
Principal	0	0	0	0	280,000	280,000
Interest and fiscal charges	0	0	0	0	72,837	72,837
TOTAL EXPENDITURES	183,271	431,655	72,440	687,366	352,837	1,040,203
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	15,027	(1,971)	273,210	286,266	(352,557)	(66,291)
OTHER FINANCING SOURCES:						
Transfers in	0	0	0	0	352,837	352,837
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES	15,027	(1,971)	273,210	286,266	280	286,546
FUND BALANCES BEGINNING OF YEAR	40,339	145,252	174,457	360,048	11,437	371,485
FUND BALANCES END OF YEAR	\$ 55,366	143,281	447,667	646,314	11,717	658,031

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Thespians	\$ 1,304	2,070	2,213	1,161
Speech	0	210	210	0
National honor society	15	934	949	0
Vocal Music	0	475	38	437
Band	1,263	6,228	8,234	(743)
Middle School Band	109	1,222	1,310	21
Flag Team	(97)	788	949	(258)
Co-Ed Athletics	8,525	89,226	83,115	14,636
Girls Soccer	(135)	300	0	165
Boys Soccer	(105)	225	72	48
Boys Track	20	0	0	20
Girls Track	185	926	1,040	71
Cross Country	185	1,689	1,222	652
Boys Tennis	138	432	550	20
Boys Basketball	(59)	4,153	4,088	6
Football	12,062	23,309	24,605	10,766
Baseball	2,655	5,574	8,053	176
Wrestling	8,648	3,341	11,814	175
Weight Room	1,268	909	143	2,034
Golf	142	0	177	(35)
Girls Basketball	2,325	1,007	1,283	2,049
Volleyball	710	2,207	2,742	175
Softball	0	82	347	(265)
Class of 2005	3,049	0	3,049	0
Class of 2006	1,296	592	3	1,885
Class of 2007	5,346	1,656	5,842	1,160
Class of 2008	0	19,308	14,494	4,814
Class of 2009	0	1,160	160	1,000
Contingency	2,189	12,390	11,632	2,947
Concessions	3,124	47,795	44,088	6,831
Student Council	2,404	8,614	9,034	1,984
Life	82	0	0	82
Scholarship Club	6,978	9,300	8,799	7,479
Grads	200	3,049	0	3,249
Spanish Club	4,438	7,444	9,258	2,624
Art Service	769	124	89	804
C Club	1,291	504	662	1,133
FFA	9,525	14,886	12,669	11,742
FBLA	570	2,936	3,276	230

CHARITON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
SES Club	1,278	5,163	3,981	2,460
On Other Hand	0	1,019	903	116
Yearbook	2,492	16,533	17,555	1,470
Cap & Gown	0	2,136	2,136	0
Cheerleaders	1,603	21,543	21,069	2,077
Drill Team	5,423	1,459	6,882	0
MS Cheerleaders	82	1,348	1,348	82
Musical	2,898	6,826	4,822	4,902
Horticulture	0	60	60	0
Med Cntr Fine	15	0	15	0
HS Ind Arts	1,080	0	1,080	0
Towel Fees	3,875	0	3,875	0
HS Home Ec	0	0	0	0
MS Home Ec	1,521	0	1,521	0
Woods Club	1,374	511	0	1,885
Construction Club	1,644	6,098	5,760	1,982
Baby Think	1	0	1	0
Donations	(5,390)	0	0	(5,390)
MS Media Center	30	0	30	0
MS Student Council	448	2,363	1,529	1,282
6th Grade	13	376	383	6
7th Grade	254	528	204	578
8th Grade	1,032	2,445	2,776	701
MS Ind Tech	341	0	341	0
MS Pop	140	13,565	10,241	3,464
MS BLD Initiative	8,550	2,490	9,303	1,737
MS Soar	200	142	0	342
MS Yearbook Club	3,788	2,488	4,546	1,730
Columbus	0	32,486	0	32,486
Chariton Elementary	13,083	0	13,083	0
Van Allen Elementary	16,999	31,690	38,652	10,037
HS Band	2,059	3,350	3,350	2,059
Total	\$ 145,252	429,684	431,655	143,281

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$	3,764,441	3,817,118	3,936,979	3,360,097
Tuition		611,828	640,590	439,979	362,761
Other		1,139,864	734,742	618,054	535,889
Intermediate sources		0	0	20,500	200
State sources		7,233,874	7,153,722	6,528,149	5,959,825
Federal sources		479,671	607,800	580,644	772,270
Total	\$	13,229,678	12,953,972	12,124,305	10,991,042
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	4,869,185	6,598,945	4,834,869	4,523,645
Special instruction		1,498,964	672,165	1,818,441	1,798,565
Other instruction		1,504,483	467,251	1,167,711	1,149,154
Support services:					
Student services		246,285	237,994	164,689	123,432
Instructional staff services		357,547	371,622	279,600	305,229
Administration services		1,272,613	1,166,859	1,063,622	926,241
Operation and maintenance of plant services		1,283,347	1,257,820	1,074,068	916,623
Transportation services		566,057	443,514	506,022	371,026
Central services		0	0	0	57,175
Other support services		0	0	176,605	121,839
Non-instructional programs		4,477	4,593	13,806	9,858
Other expenditures:					
Facilities acquisitions		43,207	8,146	102,635	403,221
Long-term debt:					
Principal		280,000	265,000	260,000	255,000
Interest and other charges		72,837	84,779	96,202	107,068
AEA flow-through		450,033	434,917	401,808	330,200
Total	\$	12,449,035	12,013,605	11,960,078	11,398,276

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATION (non-cash)	10.550	FY 07	\$ 22,309
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 07	55,777
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 07	211,261
			<u>267,038</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1107-G	<u>236,673</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES STATE GRANTS	84.186	FY 07	<u>1,876</u>
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	FY 07	<u>2,544</u>
ENHANCING EDUCATION THROUGH TECHNOLOGY	84.318	FY 07	<u>1,293</u>
ADVANCED PLACEMENT PROGRAM	84.330	FY 07	<u>52</u>
READING FIRST STATE GRANTS	84.357	FY 06	<u>34,752</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 07	<u>65,577</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 07	<u>5,170</u>
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 07	<u>34,205</u>
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 07	<u>78,444</u>
SPECIAL EDUCATION - STATE PERSONNEL DEVELOPMENT	84.323	FY 07	<u>3,287</u>
DEPARTMENT OF HUMAN SERVICES:			
IOWA DEPARTMENT OF HUMAN SERVICES:			
MEDICAL ASSISTANCE PROGRAM (MEDICAID TIME STUDY)	93.778	FY 07	<u>14,068</u>
TOTAL			<u>\$ 767,288</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Chariton Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the
Chariton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Chariton Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 22, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Chariton Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Chariton Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Chariton Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Chariton Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Chariton Community School District's financial statements that is more than inconsequential will not be prevented or detected by Chariton Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Chariton Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Chariton Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Chariton Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Chariton Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Chariton Community School District and other parties to whom Chariton Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Chariton Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

February 22, 2008

NOLTE, CORNMAN & JOHNSON P.C.
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Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
Chariton Community School District

Compliance

We have audited the compliance of Chariton Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Chariton Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Chariton Community School District's management. Our responsibility is to express an opinion on Chariton Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Chariton Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Chariton Community School District's compliance with those requirements.

In our opinion, Chariton Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Chariton Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Chariton Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Chariton Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a material weakness.

Chariton Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit Chariton Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Chariton Community School District and other parties to whom Chariton Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

February 22, 2008

CHARITON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over major programs was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
 - Clustered Programs:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Chariton Community School District did not qualify as a low-risk auditee.

CHARITON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

- II-A-07 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

- II-B-07 Grants - We noted during our audit, that when expenditures for specific grants were posted; it appeared that the expenses were not always properly coded to those line item projects. It was also noted instances of final reports for grants were finalized without the use of general ledger numbers.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting Manual for Iowa LEAs and AEAs. The proper coding also allows the District to maintain accountability of the grants by matching the revenues to the expenditures. Individuals in charge of grants should report to the board secretary for expenses that have been coded to that particular grant.

Response - Each person in the district responsible for coding bills that correspond with a grant will be given the appropriate account numbers used for each grant.

Conclusion - Response accepted.

- II-C-07 Nutrition Fund Payroll - The District should develop a workout plan for the School Nutrition Fund for repayments to the General Fund. The Nutrition Fund is carrying a liability of \$146,952.30 due to the General Fund.

Recommendation - The District should develop a plan to pay the current salaries timely from the School Nutrition Fund and a workout plan to repay the General Fund.

Response - The Nutrition Fund is monthly reimbursing the General Fund for payroll paid timely. The Nutrition Fund will continue to attempt to reduce this debt to the General Fund.

Conclusion - Response acknowledged.

II-D-07 Fixed Assets - A record of fixed asset acquisitions and disbursements are kept, however these changes are not kept up to date on the software system.

Recommendation - Fixed asset updates should be made on a continuous basis to allow the school officials and outsiders an accurate account of the amount of fixed assets at any point in time. This is necessary for both an accurate account of assets and to ensure a proper amount of insurance is carried to cover the assets in case of loss from fire, vandalism, or theft. The District should have a complete list of additions, deletions, and current assets.

Response - We continue to seek more training from SUI to better understand how to keep fixed assets on the system up to date.

Conclusion - Response accepted.

II-E-07 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended from.

Recommendation - It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Donations from Box Tops for Education as well as Target donations were recorded in accounts in the Student Activity Fund. These donations do not specify the purpose, other than instructional supplies; therefore, they should be receipted into the General Fund for use in all instructional supplies/services.

Lifetouch picture commissions were being placed in the Activity Fund. Commissions received should be receipted to the General Fund.

The District has accounts in the Student Activity Fund that appear instructional in nature. The accounts in question include Construction Club, Woods Club, LIFE, MS Media Center and Contingency. The District should review the purpose of these accounts and if these accounts are instructional, should be transferred to the General Fund.

There was still a balance in past class accounts that have already graduated. There is also a Grad account where balances from old class accounts appear to be closed to. These accounts should have the remaining funds in them redistributed to other accounts in the Activity Fund.

There is a Scholarship Club account where scholarships awarded to District students are receipted and expended from. The Activity Fund is not a proper fund to account for these types of transactions. The District should transfer remaining funds to the Private Purpose Trust account.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1).

Response - We will implement all suggested recommendations.

Conclusion - Response accepted.

CHARITON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2007
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
Agency Number: 1107-G
Federal Award Year: 2007
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

III-B-07 Grants - We noted during our audit, that when expenditures for specific grants were posted; it appeared that the expenses were not always properly coded to those line item projects. It was also noted instances of final reports for grants were finalized without the use of general ledger numbers.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting Manual for Iowa LEAs and AEAs. The proper coding also allows the District to maintain accountability of the grants by matching the revenues to the expenditures. Individuals in charge of grants should report to the board secretary for expenses that have been coded to that particular grant.

Response - Each person in the district responsible for coding bills that correspond with a grant will be given the appropriate account numbers used for each grant.

Conclusion - Response accepted.

CHARITON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting

- IV-A-07 Certified Budget - District disbursements for the year ended June 30, 2007, did not exceed the amount budgeted.
- IV-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-D-07 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Dave Rich, Board Member Owner of True Value	Supplies	\$6,389
Paula Wright, Principal, Spouse is President of U.S. Bank	Services	-

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the spouse of the principal do not appear to represent a conflict of interest.

The above transactions with the Board Member do appear to represent a conflict of interest in accordance with Chapter 279.7A of the Code of Iowa.

Recommendation - The District should seek legal counsel and refrain from doing business with related party officials.

Response - We will seek legal counsel on this matter.

Conclusion - Response acknowledged. District has replied the previous two years that legal counsel would be contacted; however have not obtained legal counsel. The District continues to use the Board Member's business as a vendor without consideration of compliance with Chapter 279.7A of the Code of Iowa. The lack of resolution gives the appearance that the Board accepts noncompliance in District procedures.

- IV-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy. However, we did note that the District was not receiving the proper interest rate, set by the State Rate Setting Committee, on their Certificates of Deposit at U.S. Bank.

Recommendation - The District should contact the appropriate banks and request reimbursement for underpayment of interest.

Response - The bank has been contacted and rates have been adjusted.

Conclusion - Response accepted.

IV-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-J-07 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - The bank has been contacted and we are now receiving images of both the front and back of each cancelled check.

Conclusion - Response accepted.

IV-K-07 Financial Condition - The District had five negative account balances totaling \$6,691 in the Student Activity Fund at June 30, 2007. The District also had negative net assets in the School Nutrition Fund of \$55,365 at June 30, 2007.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficits.

Response - We will monitor these deficits and investigate alternatives to eliminate them.

Conclusion - Response accepted.